

**PUBLIC DISCLOSURE**

**August 11, 2014**

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**THE BANK OF CANTON**

**90175**

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**Division of Banks**

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<b>NOTE:</b>	<b>This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate- income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the Division of Banks or the Federal Deposit Insurance Corporation concerning the safety and soundness of this financial institution.</b>
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## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires the Massachusetts Division of Banks (Division) and the Federal Deposit Insurance Corporation (FDIC) to use their authority when examining financial institutions subject to their supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the CRA performance of **The Bank of Canton (Bank of Canton or the Bank)**, prepared by the Division and the FDIC, the institution's supervisory agencies, as of **August 11, 2014**. The agencies evaluate performance in assessment area(s), as they are delineated by the institution, rather than individual branches. The assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The FDIC and Division rate the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00 and Part 345 of the FDIC's Rules and Regulations.*

## INSTITUTION RATING

### INSTITUTION'S CRA RATING:

**This institution is rated “Satisfactory” by the Division and the FDIC**

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Based on the Bank's asset size, their CRA performance was evaluated using the *Interagency Intermediate Small Institution (ISI) Examination Procedures*, which consists of a Lending Test and a Community Development Test. A summary of the Bank's overall performance within each of the two tests is provided below and additional detail is provided under the *Conclusions with Respect to Performance Tests*.

#### ***Lending Test:***

**The Lending Test is rated “Satisfactory” by both agencies.**

The Bank of Canton's average net loan-to-deposit ratio is reasonable given the Bank's size and assessment area credit needs. A majority of the Bank's loans are in the assessment area. The geographic distribution of the Bank's loans reflects reasonable dispersion throughout the assessment area. The distribution of loans reflects reasonable penetration among borrowers of different income levels and businesses of different sizes. The Bank received no CRA-related complaints.

#### ***Community Development Test:***

**The Community Development Test is rated “High Satisfactory” by the Division and “Satisfactory” by the FDIC. Please note that although the agencies agree on overall performance under this test, the FDIC's rating system does not include a “High Satisfactory” rating.**

The Bank demonstrated good responsiveness to the community development needs of the assessment area through community development loans, qualified investments, and community development services.

## SCOPE OF THE EXAMINATION

The CRA evaluation includes a review of the Bank's lending and community development activities for the period of December 23, 2010 through August 11, 2014. The data and applicable timeframes for the Lending Test and Community Development Test are discussed below.

Under the Lending Test, examiners emphasized all originated home mortgage loans reported on the Bank's Home Mortgage Disclosure Act ("HMDA") loan application registers ("LARs") for 2012, 2013, and the first 6 months of 2014. The LARs contain data about home purchase and home improvement loans, including refinances of 1-4 family and multi-family properties. The agencies compared the Bank's 2012 home mortgage lending performance with 2012 aggregate lending data; 2013 aggregate data was not available as of the evaluation date. Aggregate data includes the lending activity within the Bank's assessment area of all institutions subject to HMDA reporting.

The Division and the FDIC also reviewed small business loans for the same period. Small business loans include commercial real estate and commercial and industrial loans with original balances of \$1 million or less. Due to its asset size, the Bank is not subject to data collection and reporting of small business loans. While the Bank is not required to report small business loans, it does maintain the information in the same format as that required by CRA. Information concerning small business lending was derived from the Small Business Loan Registers maintained, but not reported, by the Bank.

In addition, consumer loans constitute a lesser portion of the Bank's lending activity; and the Bank did not originate any small farm loans. As such, these loan products were not included in the evaluation.

Given the composition of the loan portfolio, lending distribution during the evaluation period and the Bank's noted business strategy, home mortgage loans received greater weight than small business loans in arriving at overall Lending Test conclusions and the rating.

The Community Development Test includes community development loans, investments, and services for the period December 23, 2010 through August 11, 2014.

### ***Metropolitan Statistical Area (MSA) Review Scope***

The Bank's assessment area covers three MSAs. The MSAs are noted in Table 1, with the Bank's lending activity and number of branches and ATMs located in each.

Table 1 - Loans, Branches, and ATMs by MSA								
MSA	2012		2013		YTD 2014		Full-Service Branches	ATMs
	#	%	#	%	#	%		
Home Mortgage Loans								
Boston-Cambridge-Quincy, MA-NH	1,971	82.1	1,276	80.0	143	99.3	5	7
Providence-Warwick, RI-MA	110	4.6	65	4.1	0	0.0	0	0
Worcester, MA-CT	320	13.3	254	15.9	1	0.7	0	0
Total	2,401	100.0	1,595	100.0	144	100.0	5	7
Small Business Loans								
Boston-Cambridge-Quincy, MA-NH	57	95.0	55	100.0	18	94.7		
Providence-Warwick, RI-MA	2	3.3	0	0.0	1	5.3		
Worcester, MA-CT	1	1.7	0	0.0	0	0.0		
Total	60	100.0	55	100.0	19	100.0		

Source: 2012, 2013 and 2nd Quarter 2014 HMDA LARs, CRA Small Business Loan Registers, and Bank Records

Each of the MSAs noted in Table 1 are encompassed in the larger Boston-Worcester-Providence MA-RI-NH-CT Combined Statistical Area (CSA) #148. Examiners analyzed performance in each MSA; however, as a substantial majority of the Bank's activities are within the Boston-Cambridge-Quincy, MA-NH MSA, and all areas are within CSA #148, the Bank's performance is presented bank-wide at the broader CSA level including all three MSAs.

## PERFORMANCE CONTEXT

### Description of Institution

The Bank of Canton is a Massachusetts chartered stock savings bank. Until 2004, the Bank operated as a mutually held savings bank when it reorganized into a mutual holding company structure. The Bank's corporate headquarters are located at 490 Turnpike Street in Canton, which does not include a branch. The Bank has five full-service branch offices: two in the Town of Canton and one each located in Brookline, Quincy, and Randolph. One branch in Canton is located in an upper-income census tract while the other four branches are located in middle-income census tracts. Additionally, the Bank has three mortgage centers located in Auburn, Norwell, and Marshfield. The Bank maintains two stand-alone Automated Teller Machines (ATMs) located in Canton and Norwood. All of the branch locations accept deposits and provide a full range of loan products and financial services to retail and commercial customers. The Bank closed its Hyannis branch on April 22, 2011.

As of June 30, 2014, the Bank had total assets \$653.9 million and total loans of \$499.8 million, which represents 76.4 percent of total assets. The Bank of Canton's total assets decreased from \$661.0 million to \$653.9 million, or approximately 1.1 percent, since the previous evaluation. Loans increased approximately 4.3 percent during this same timeframe.

Table 2 details the distribution of the Bank's loan portfolio as of June 30, 2014. Loans secured by residential properties account for the most significant portion of the loan portfolio, at 65.9 percent in total. This percentage includes revolving, open-end lines of credit; closed end mortgages-both first and second liens; and loans secured by multi-family residential properties. Commercial real estate loans account for the second highest proportion at 23.4 percent.

<b>Table 2 – Loan Portfolio Distribution as of June 30, 2014</b>		
<b>Loan Type</b>	<b>Dollar Amount \$(000)</b>	<b>Percent of Total Loans (%)</b>
Construction, Land Development, and Other Land Loans	39,041	7.3
Revolving, Open-end Loans Secured by 1-4 Family Residential Properties and Extended Under Lines of Credit	21,480	4.0
Closed-end Loans Secured by 1-4 Family Residential Properties: Secured by 1st Liens	308,757	57.5
Closed-end Loans Secured by 1-4 Family Residential Properties: Secured by Jr. Liens	2,370	0.4
Secured by Multi-Family (5 or more) Residential Properties	21,681	4.0
Secured by Nonfarm Nonresidential Properties	126,018	23.4
<b>Loans Secured by Real Estate</b>	<b>519,347</b>	<b>96.6</b>
Commercial and Industrial	16,725	3.1
Loans to Individuals for Household, Family, and Other Personal Expenditures	1,751	0.3
<b>Total Loans</b>	<b>537,823</b>	<b>100.0</b>

*Source: June 30, 2014 Call Report*

The prior CRA evaluation of the institution, conducted by the FDIC as of December 23, 2010, resulted in an overall rating of "Satisfactory." The last DOB CRA evaluation dated April 10, 2006, resulted in an overall rating of "High Satisfactory."

There are no apparent legal or financial impediments that would limit the ability of the Bank to meet the credit needs of its assessment area.

## Description of Assessment Area

The CRA requires each financial institution to define an assessment area (AA) within which its CRA performance will be evaluated. The Bank's assessment area as currently defined meets the technical requirements of the CRA regulation since it (1) consists of one or more political subdivisions; (2) includes the geographies where the Bank has its main office, branches, and deposit-taking ATMs as well as the surrounding geographies in which the Bank originated a substantial portion of its loans; (3) consists of whole census tracts; (4) does not extend substantially beyond state boundaries; (5) does not reflect illegal discrimination; and (6) does not arbitrarily exclude low-or moderate-income areas.

The Bank has designated its assessment area to include the following cities and towns listed in the following table. The Bank's assessment area is composed of 686 contiguous census tracts located in Bristol, Middlesex, Norfolk, Plymouth, Suffolk, and Worcester Counties. The assessment area includes 71 low-income tracts, 121 moderate-income tracts, 260 middle-income tracts, and 222 upper-income tracts; 11 tracts are listed as N/A. These municipalities are part of the Boston-Cambridge-Quincy MA-NH MSA #14460 (Middlesex, Norfolk, Plymouth, and Suffolk Counties), the Worcester MA MSA #49340 (Worcester County), and the Providence-New Bedford-Fall River RI-MA MSA #39300 (Bristol County). As previously noted, each MSA is encompassed within the Boston-Worcester-Providence, MA-RI-NH-CT CSA.

Assessment Area Municipalities by County							
Bristol County							
Attleboro	Easton	Mansfield	North Attleboro	Norton	Raynham		
Middlesex County							
Arlington	Ashland	Belmont	Cambridge	Frammingham	Holliston	Hopkinton	Lexington
Marlborough	Medford	Natick	Newton	Sherborn	Somerville	Sudbury	Waltham
Watertown	Wayland	Weston	Winchester				
Norfolk County							
Avon	Bellingham	Braintree	Brookline	Canton	Cohasset	Dedham	Dover
Foxboro	Franklin	Holbrook	Medfield	Medway	Millis	Milton	Needham
Norfolk	Norwood	Plainville	Quincy	Randolph	Sharon	Stoughton	Walpole
Wellesley	Westwood	Weymouth	Wrentham				
Plymouth County							
Abington	Bridgewater	Brockton	Carver	Duxbury	E. Bridgewater	Halifax	Hanover
Hanson	Hingham	Hull	Kingston	Marshfield	Middleboro	Norwell	Pembroke
Plymouth	Plimpton	Rockland	Scituate	Wareham	W. Bridgewater	Whitman	
Suffolk County							
Allston/ Brighton	Back Bay/ Beacon Hill	Charlestown	Dorchester	Downtown	Fenway/Kenmore	Hyde Park	Jamaica Plain
Mattapan	Roslindale	Roxbury	S. Boston	South End	W. Roxbury		
Worcester County							
Auburn	Grafton	Holden	Milford	Millbury	Northborough	Northbridge	Oxford
Shrewsbury	Southborough	Sutton	Upton	Westborough	Worcester		

To assess the Bank's lending performance within this evaluation, consideration is given to certain demographic data about the assessment area. Table 3 highlights some of the relevant demographic data.



<b>Table 3 – Demographic Information</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA % of #</b>
Geographies (Census Tracts)	686	10.5	17.6	37.9	32.4	1.6
Population by Geography	3,093,755	8.9	16.3	40.3	34.4	0.1
Owner-Occupied Housing by Geography	719,726	2.9	11.1	44.9	41.1	0.0
Business by Geography (Dun & Bradstreet)	288,196	6.5	12.3	36.9	44.0	0.3
Family Distribution by Income Level	725,240	21.2	15.7	19.9	43.2	0.0
Distribution of Low and Moderate-Income Families throughout AA Geographies	267,794	15.8	23.0	40.8	20.4	0.0
Median Family Income (MFI) Families Below Poverty Level		\$95,306 6.8%	Median Housing Value: \$429,286 Unemployment Rate: 7.1%			

*Source: 2010 U.S. Census; 2012, 2013, & 2014 FFIEC Estimated Median Family Incomes, unless otherwise noted*

### ***Geographies***

The assessment area is currently composed of 686 census tracts, of which 72, or 10.5 percent, are low-income; 121 or 17.6 percent are moderate-income; 260, or 37.9 percent, are middle-income; 222 or 32.4 percent are upper income; and 11, or 1.6 percent, are NA. The NA tracts are located in Boston, Bridgewater, and Worcester.

### ***Population and Families***

Based on 2010 U.S. Census data, the total population of the assessment area is 3,093,755, which is composed of 1,184,557 households, of which 725,240 are families. Of these families, 21.2 percent are low-income; 15.7 percent are moderate-income; 19.9 percent are middle-income; and 43.2 percent are upper-income. It is also noted that 6.8 percent of the assessment area families are below the poverty level.

### ***Housing***

There are 1,273,297 housing units in the assessment area. Of these housing units, 56.5 percent are owner occupied, 36.5 percent are occupied rental units, and 7.0 percent are vacant. Of all owner-occupied housing units in the assessment area, 2.9 percent are in low-income tracts, 11.1 percent are in the moderate-income census tracts, while 44.9 percent are in the middle-income tracts and 41.1 percent are in the upper-income tracts. The small percentages of owner-occupied units in the low- and moderate-income tracts indicate limited opportunity for lending in low- and moderate-income areas. The median housing value for the assessment area was \$410,619.

### ***Businesses***

According to 2013 Dun and Bradstreet business demographic data, there are 288,196 businesses in the assessment area, of which 71.3 percent have gross annual revenues (GARs) of \$1 million or less, 5.5 percent have GAR greater than \$1 million, and the remaining 23.2 percent have unknown revenues. Of the total businesses in the assessment area, 6.5 percent are in low-income census tracts 12.3 percent are in the moderate-income census tracts, 36.9 percent are in the middle-income census tracts, and 44.0 percent are in the upper-income census tracts, and 0.3 percent are in tracts with no income designation. The largest portion of these businesses are engaged in the services industry (47.0 percent), followed by retail trade (11.4 percent), finance, insurance, and real estate (9.4 percent), and construction (7.0 percent). Of the businesses that reported the relevant data, 64.6 percent have four or fewer employees and 91.4 percent operate from a single location.

### ***Unemployment***

According to the 2010 U.S. Census, the unemployment rate for the assessment area was 7.1 percent. More recent data obtained from the U. S. Bureau of Labor and Statistics indicates that the unemployment rate was 5.5 percent for Massachusetts as of June 2014. The June 2014 unemployment rates in the assessment area varied from a low of 4.6 percent in Middlesex County to a high of 7.1 percent in Bristol County.

### ***Competition***

The Bank of Canton operates in a highly competitive market in terms of financial services. There is competition for loans among numerous banks, credit unions, and non-depository mortgage lenders that operate in the area. In 2012, 617 lenders reported a total of 207,322 residential mortgage loans originated or purchased within the assessment area. The Bank of Canton ranked 17<sup>th</sup> out of this group of lenders, with a market share of 1.2 percent. Among the more prominent financial institutions competing with the Bank within the assessment area are Wells Fargo Bank, NA, JPMorgan Chase Bank, NA, and US Bank, NA.

### ***Community Contact***

As part of the evaluation process, third parties that are active in community affairs are generally contacted to assist in assessing the housing and business need in the Bank's assessment area. Relevant information from this practice assists in determining whether local financial institutions are responsive to the credit needs of the community, and whether additional opportunities are available; two community contact interviews were conducted.

Examiners interviewed a representative of a non-profit affordable housing organization, which manages 23 properties consisting of 90 affordable housing units within the Bank's assessment area. The contact stated the present housing concern is for the elderly; families where the head of the household is over 55, who may have lost their job; and, young families with children. The contact stated the need for affordable housing is increasing. The organization is primarily funded through federal and state grants. On a more limited basis the organization provides social services and financial support to assist people from becoming homeless. The contact stated that the local banks are very supportive in donations and in fund raising efforts. The donations are utilized primarily to fund the organization's operating budget.

The second interview was with a representative of an organization that works in the arena of community development, infrastructure repair, and home rehabilitation. The contact stated that there is a need for home rehabilitation programs, especially for low- and moderate-income individuals who need repairs to their heating systems, roofs, and windows. The contact stated there have been significant increases on demand for support services and resources. The contact also indicated that local banks have been supportive by providing lower interest rates on home improvement projects.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### LENDING TEST

Examiners evaluated Bank of Canton's performance under the Lending Test pursuant to the following criteria: loan-to-deposit ratio; assessment area concentration; lending to borrowers of different incomes and businesses of different sizes (borrower profile); geographic distribution of loans; and the Bank's record of taking action in response to CRA complaints. The following sections present a discussion of the Bank's performance under each criterion.

#### Loan-to-Deposit (LTD) Ratio Analysis

This performance criterion determines what percentage of the Bank's deposit base is reinvested in the form of loans. The Bank's LTD ratio is reasonable, given the institution's size, financial condition, and assessment area credit needs.

The Bank's net LTD ratio is 92.4 percent for the quarter ending March 31, 2014. Over the 14 quarters since the previous CRA evaluation, the Bank's average net LTD ratio is 86.9 percent. Over the period since the previous evaluation, the Bank's quarterly net LTD ratio has shown a declining then ascending trend dropping to a low of 79.1 percent before climbing to 92.4 percent where it currently stands.

A comparative analysis was conducted of the Bank's net LTD ratio to the ratios of five similarly situated Massachusetts-based financial institutions. The average ratios were calculated using the 14 quarterly Call Reports for each institution. The LTD ratios and total assets are presented in Table 4 alphabetically by bank name.

Table 4 – Loan-to-Deposit Comparison		
Bank Name	Total Assets \$(‘000s) as of 03/31/14	Average Net LTD Ratio 12/31/10 – 03/31/14
Leader Bank	656,065	117.6
Marlborough Savings Bank	477,027	69.3
Needham Bank	1,397,389	107.9
Norwood Co-Operative Bank	365,014	86.3
South Shore Savings	963,506	96.0
<b>The Bank of Canton</b>	<b>622,683</b>	<b>86.9</b>
The Village Bank	768,424	80.7

*Source: Consolidated Report of Condition and Income (Call Reports) by quarter from 6/30/10 to 9/30/13.*

As shown in Table 4, the average net LTD ratio for this similarly situated group of institutions ranges from a high of 117.6 percent to a low of 69.3 percent. The Bank of Canton was situated toward the middle of the range of LTD ratios of all institutions.

As mentioned previously, The Bank of Canton sold \$1.4 billion in residential mortgage loans over the evaluation period. These loans are not reflected in the Bank's LTD ratio. Selling loans enables institutions to manage their liquidity and interest rate risk, and also allows them to originate a larger volume of loans than would otherwise be possible.

## Assessment Area Concentration

Lending performance was also evaluated by analyzing the percentage by number and dollar amount of residential and small business loans made inside and outside the assessment area. As shown in Table 5, a majority of the Bank's residential and small business loans were inside the assessment area. Using the HMDA and Small Business information, 80.1 percent of the Bank's loans were originated inside the assessment area by number and approximately 82.0 percent by dollar volume, in total.

<b>Table 5 – Distribution of Loans Inside and Outside of Assessment Area</b>										
<b>Loan Category or Type</b>	<b>Number of Loans</b>					<b>Dollar Volume</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total \$ (000)</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$ (000)</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>	
<b>Home Mortgage Loans</b>										
<b>2012</b>										
Home Purchase	696	81.4	159	18.6	855	206,898	83.3	41,368	16.7	248,266
Refinance	1,560	78.4	431	21.6	1,991	460,305	80.2	113,956	19.8	574,261
Home Improvement	145	81.5	33	18.5	178	40,207	84.3	7,482	15.7	47,689
<b>Total</b>	<b>2,401</b>	<b>79.4</b>	<b>623</b>	<b>20.6</b>	<b>3,024</b>	<b>707,410</b>	<b>81.3</b>	<b>162,806</b>	<b>18.7</b>	<b>870,216</b>
<b>2013</b>										
Home Purchase	772	82.8	160	17.2	932	233,572	84.9	41,532	15.1	275,104
Refinance	709	79.5	183	20.5	892	208,139	81.1	48,499	18.9	256,638
Home Improvement	114	83.2	23	16.8	137	38,201	88.8	4,824	11.2	43,025
<b>Total</b>	<b>1,595</b>	<b>81.3</b>	<b>366</b>	<b>18.7</b>	<b>1,961</b>	<b>479,912</b>	<b>83.5</b>	<b>94,855</b>	<b>16.5</b>	<b>574,767</b>
<b>1/1/2014-6/30/2014</b>										
Home Purchase	348	76.0	110	24.0	458	106,852	76.9	32,213	23.1	139,065
Refinance	79	75.2	26	24.8	105	23,546	78.8	6,335	21.2	29,881
Home Improvement	24	85.7	4	14.3	28	11,411	83.2	2,299	16.8	13,710
<b>Total</b>	<b>451</b>	<b>76.3</b>	<b>140</b>	<b>23.7</b>	<b>591</b>	<b>141,809</b>	<b>77.6</b>	<b>40,847</b>	<b>22.4</b>	<b>182,656</b>
<b>Total Home Mortgage</b>	<b>4,447</b>	<b>79.8</b>	<b>1,129</b>	<b>20.2</b>	<b>5,576</b>	<b>1,329,131</b>	<b>81.7</b>	<b>298,508</b>	<b>18.3</b>	<b>1,627,639</b>
<b>Small Business Loans</b>										
2012	60	96.8	2	3.2	62	16,100	96.3	616	3.7	16,716
2013	55	85.9	9	14.1	64	16,150	89.4	1,922	10.6	18,072
1/1/2014-6/30/2014	19	100.0	0	0	19	6,439	100.0	0	0	6,439
<b>Total Small Business</b>	<b>134</b>	<b>92.4</b>	<b>11</b>	<b>7.6</b>	<b>145</b>	<b>38,689</b>	<b>93.8</b>	<b>2,538</b>	<b>6.2</b>	<b>41,227</b>
<b>Grand Total</b>	<b>4,581</b>	<b>80.1</b>	<b>1,140</b>	<b>19.9</b>	<b>5,721</b>	<b>1,367,820</b>	<b>82.0</b>	<b>301,046</b>	<b>18.0</b>	<b>1,668,866</b>

Source: 2012, 2013 and YTD 2014 HMDA LARs and CRA Loan Registers

### Residential Lending

The Bank originated a relatively consistent percentage of loans inside its designated assessment area in 2012, 2013, and the first six months of 2014. Overall, 79.8 percent by number, and 81.7 percent by dollar volume, was inside the assessment area.

It is further noted that the Bank's HMDA-reportable loans decreased approximately 33 percent from 2012 to 2013, driven mostly by a general decline in demand for refinance loans in the broader market. Management attributed this drop in refinances to the rising interest rate environment in 2013, and also noted that the majority of refinances had been made in 2012, resulting in a saturated market in 2013 and 2014.

### Small Business Lending

The Bank originated a substantial majority of small business loans inside its assessment area in 2012, 2013, and the first two quarters of 2014, at 92.4 percent by number and 93.8 percent by dollar volume throughout the period combined.

### Geographic Distribution

The distribution of residential loans and small business loans by census tract income level was reviewed to determine the Bank's level of addressing the credit needs of all portions of the assessment area. Emphasis is generally placed on a lender's performance in the low- and moderate-income census tracts in the assessment area. Overall, the distribution of the Bank's residential and small business loans reflects reasonable dispersion throughout the assessment area's census tracts. The following sections discuss the Bank's performance under this criterion by loan type.

### Residential Lending

Conclusions about the Bank's residential mortgage lending under this criterion are based primarily on the Bank's performance of lending in low- and moderate-income geographies as compared to aggregate lending data and applicable demographics. The Bank demonstrated a reasonable dispersion of home mortgage loans throughout the assessment area, including low- and moderate-income census tracts. Table 6 depicts the Bank's home mortgage loans, aggregate and demographic data by census tract income level.

<b>Table 6 – Distribution of Home Mortgage Loans by Census Tract Income Level</b>								
<b>Census Tract Income Level</b>	<b>% of Total Owner-Occupied Housing Units</b>	<b>2012 Aggregate Lending Data (% of #)</b>	<b>Bank 2012</b>		<b>Bank 2013</b>		<b>Bank YTD-2014</b>	
			<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	2.9	2.4	60	2.5	45	2.8	16	3.5
<b>Moderate</b>	11.1	8.8	237	9.9	168	10.5	45	10.0
<b>Middle</b>	44.9	39.4	969	40.4	708	44.4	228	50.5
<b>Upper</b>	41.1	49.4	1,134	47.2	674	42.3	162	36.0
<b>N/A</b>	0.0	0.0	1	0.0	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>2,401</b>	<b>100.0</b>	<b>1,595</b>	<b>100.0</b>	<b>451</b>	<b>100.0</b>

*Source: 2010 U.S. Census Data, 2012, 2013 and YTD 2014 HMDA LARs, and 2012 Aggregate HMDA Data*

In 2012, The Bank of Canton originated 60 loans, or 2.5 percent, to borrowers in low- income census tracts. The Bank also originated 237 loans, totaling 9.9 percent, to borrowers in moderate- income census tracts. The Bank's percentage of lending in both low- and moderate-income census tracts is slightly higher than the corresponding aggregate percentage in 2012. In addition, the Bank's lending in low- and moderate-income census tracts is slightly lower than demographics in 2012. Furthermore, market share data for 2012 show the Bank ranked 16<sup>th</sup> in lending in low-income census tracts and 14<sup>th</sup> in moderate-income census tracts out of 617 lenders in 2012. Both of these rankings further highlight the Bank's reasonable performance.

While the number of loans decreased in 2013, the percentage of loans in low- and moderate-income geographies were relatively consistent with 2012 levels. Performance in 2014

demonstrated further consistency in terms of the percentage of loans made by the Bank in low- and moderate-income census tracts.

### Small Business Lending

The Bank of Canton's distribution of small business loans reflects reasonable dispersion throughout the assessment area. Table 7 illustrates the distribution of the Bank's small business loans by census tract income level, as well as the applicable business demographic figures for comparison purposes.

<b>Table 7 – Distribution of Small Business Loans by Census Tract Income Level</b>								
<b>Census Tract Income Level</b>	<b>2012 % of Total Businesses</b>	<b>2012 Bank</b>		<b>2013 % of Total Businesses</b>	<b>2013 Bank</b>		<b>YTD 2014 Bank</b>	
		<b>#</b>	<b>%</b>		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	6.5	3	5.0	6.5	2	3.6	0	0.0
<b>Moderate</b>	12.4	7	11.7	12.3	7	12.7	2	10.5
<b>Middle</b>	37.1	36	60.0	36.9	27	49.1	11	57.9
<b>Upper</b>	43.7	14	23.3	44.0	19	34.5	6	31.6
<b>NA</b>	0.3	0	0.0	0.3	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>60</b>	<b>100.0</b>	<b>100.0</b>	<b>55</b>	<b>100.0</b>	<b>19</b>	<b>100.0</b>

*Source: Small Business LRs – 2012, 2013, and YTD 2014, 2012 and 2013 D&B Data.*

In 2012, The Bank of Canton originated 5.0 percent of its small business loans in low-income census tracts and 11.7 percent to small businesses in moderate-income census tracts. The Bank's small business lending in 2012 is slightly below the percentages of businesses located in low- and moderate-income census tracts. While these percentages are lower, given the Bank's loan volume, an increase of a single loan would make the percentages more comparable to the percentages of businesses.

Similarly in 2013, the Bank originated 3.6 percent of its small business loans in low-income census tract and 12.7 percent of its lending was in moderate-income tracts. While the percentage of lending in low-income census tracts was lower than the percent of total businesses, the lending in moderate-income census tracts was slightly higher. Overall, the Bank's performance of small business lending was reasonable.

### **Borrower Profile**

The distributions of residential loans by borrower income and small business loans by GAR level were reviewed to determine the extent to which the Bank is addressing the credit needs of the area's residents, particularly those of low- or moderate-income, and businesses with GARs of \$1 million or less. The Bank demonstrated reasonable penetration of loans to individuals of different income levels and businesses of different sizes.

### Residential Lending

Conclusions about the Bank's residential mortgage lending under this criterion are based primarily on the Bank's performance in lending to low- and moderate-income borrowers relative to aggregate lending data and compared to assessment area demographics. The Bank has achieved a reasonable penetration of residential loans among borrowers of different incomes.

Table 8 depicts the distribution of the Bank's home residential loans, as well as aggregate and demographic data by income level.

<b>Table 8 – Distribution of Home Mortgage Loans by Borrower Income Level</b>								
<b>Income Level</b>	<b>% of Total Families</b>	<b>2012 Aggregate Lending Data (% of #)</b>	<b>2012 Bank</b>		<b>2013 Bank</b>		<b>YTD 2014 Bank</b>	
			<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	21.2	4.0	78	3.2	65	4.1	10	2.2
<b>Moderate</b>	15.7	13.9	405	16.9	285	17.9	74	16.4
<b>Middle</b>	19.9	22.3	664	27.6	410	25.7	115	25.5
<b>Upper</b>	43.1	45.9	1,185	49.4	800	50.2	236	52.3
<b>N/A</b>	0.1	13.9	69	2.9	35	2.1	16	3.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>2,401</b>	<b>100.0</b>	<b>1,595</b>	<b>100.0</b>	<b>451</b>	<b>100.0</b>

*Source: 2010 U.S. Census Data, 2012, 2013 and YTD 2014 HMDA LARs, and 2012 Aggregate HMDA Data*

In 2012, The Bank of Canton originated 3.2 percent of its home mortgage loans to low-income borrowers, which is slightly below aggregate data at 4.0 percent. The Bank originated 16.9 percent of its home mortgage loans to moderate-income borrowers, while the aggregate performance stood at 13.9 percent. While the Bank's home mortgage origination percentages to moderate-income borrowers exceed aggregate and demographic data, the Bank is below the aggregate and significantly below the demographics in mortgage origination to low-income borrowers. The Bank's performance of lending to low-income borrowers is reasonable, however, as a low-income individual (considering the median family income levels throughout the assessment area), particularly one with income below the poverty threshold, would likely have difficulty qualifying for a home mortgage loan using conventional underwriting standards.

In 2013, the Bank increased its percentage of loans to low-income borrowers to 4.1 percent. The Bank's lending to moderate-income borrowers also increased slightly. Performance of lending to low- and moderate-income borrowers was slightly below the percentages in prior years.

Market share data for 2012 show The Bank of Canton ranked 14<sup>th</sup> in lending to moderate-income borrowers in the area, capturing 1.4 percent of the market. This information further highlights the Bank's reasonable performance under this criterion.

#### *Small Business Lending*

The Bank of Canton's distribution of small business loans reflects reasonable penetration to businesses of different sizes. Table 9 illustrates the distribution of the Bank's small business loans within the assessment area by the gross annual revenue (GAR) size of the business, as well as the applicable business demographic figure for comparison purposes.

<b>Table 9 – Distribution of Small Business Loans by Gross Annual Revenues</b>								
<b>GAR \$(000)</b>	<b>2012 % of Total Businesses</b>	<b>2012 Bank</b>		<b>2013 % of Total Businesses</b>	<b>2013 Bank</b>		<b>YTD 2014 Bank</b>	
		<b>#</b>	<b>%</b>		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
≤ \$1,000	70.9	39	65.0	71.3	32	58.2	14	73.7
> \$1,000	5.2	21	35.0	5.5	22	40.0	5	26.3
Not Reported	23.9	0	0.0	23.2	1	1.8	0	0.0
<b>Total</b>	<b>100.0</b>	<b>60</b>	<b>100.0</b>	<b>100.0</b>	<b>55</b>	<b>100.0</b>	<b>19</b>	<b>100.0</b>

*Source: 2012, 2013, and YTD Small Business Loan Registers, 2012 and 2013 D&B Data*

As shown in the table above, in 2012 the Bank originated 65.0 percent of all small business loans to businesses with GARs of \$1 million or less. The percentage is slightly lower than the percentage of businesses in the assessment area that have GARs of \$1 million or less.

In 2013, the Bank originated 58.2 percent of all small business loans to businesses with GARs of \$1 million or less. This percentage is also lower than the percentage of businesses in the assessment area with GARs of \$1 million or less. The Bank increased its level of lending to small businesses YTD 2014, to 73.7 percent. Considering the small number of small business loans, and the Bank's focus on residential lending overall, this performance is reasonable.

### **Response to Complaints**

During the evaluation period, the Bank did not receive any CRA-related complaints; therefore, this factor did not impact overall ratings.

## **COMMUNITY DEVELOPMENT TEST**

Community development activities considered for the Community Development Test include:

- (1) Affordable housing (including multi-family rental housing) for low- or moderate-income individuals;
- (2) Community services targeted to low- or moderate-income individuals;
- (3) Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company Programs or have gross annual revenues of \$1 million or less;
- (4) Activities that revitalize or stabilize low- or moderate-income geographies; or
- (5) Loans, investments, and services that support, enable, or facilitate Neighborhood Stabilization Program (NSP) eligible activities in designated target areas.

Overall, The Bank of Canton demonstrated good responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services, as appropriate, considering the institution's capacity and the need and availability of such opportunities in the institution's assessment area. The institution primarily assesses the community development opportunities within its assessment area through



involvement in local organizations, as well as through communications with customers during regular retail banking activities and with participants at financial education seminars.

## Community Development Loans

For the purpose of this evaluation, a community development loan is defined as a loan that: (1) has community development as its primary purpose, (2) has not already been reported by the Bank for consideration under small business or home mortgage lending (unless it is a multifamily dwelling loan), and (3) benefits the Bank's assessment area or a broader statewide or regional area that includes the bank's assessment area.

The Bank of Canton made a nine community development loans totaling \$7.8 million during the evaluation period. This equates to 1.6 percent of net loans as of June 30, 2014. Summarized in Table 10 are the Bank's community development loans by community development category and year originated.

<b>Table 10 – Community Development Loans</b>								
Community Development Category	2011		2012		2013		YTD 2014	
	#	\$	#	\$	#	\$	#	\$
Affordable Housing	0	0	0	0	0	0	0	0
Community Services	0	0	1	16,688	1	576,000	0	0
Promote Economic Development	4	3,149,500	0	0	1	980,050	1	2,430,000
Revitalization	0	0	0	0	0	0	1	600,000
Total	4	3,149,500	1	16,688	2	1,556,050	2	3,030,000

*Source: Internal bank records*

The following points illustrate an example of the Bank's community development loans made during the evaluation period:

- In 2011, the Bank made two loans totaling \$1,152,000 to a business for purchasing an industrial warehouse to move the company's base operations. One of the two loans was made through the SBA's 504 loan program. The loans allowed for expansion of the company's operations and created new jobs in the Bank's assessment area.
- The Bank made two loans totaling \$450,000 to a local non-profit organization to purchase and renovate an existing commercial property into a restaurant. One of the loans was made through the SBA's 504 loan program. The loan has an economic development purpose, and provided additional jobs in the Bank's assessment area.
- The Bank made a loan for \$2,430,000 to purchase and rehabilitate a commercial property to house the company's operations and allow for space to grow and add new jobs. While the business is located in an upper-income census tract, the jobs created are primarily for low-income individuals.

## Qualified Investments

A qualified investment for the purposes of this evaluation is a lawful investment, deposit, membership share, or grant that has community development as its primary purpose. The evaluation considered (1) investment and grant activity, (2) the responsiveness to credit and community development needs, and (3) community development initiatives. The following sections describe the institution's qualified investments during the evaluation period.

## Equity Investments

During the evaluation period, the Bank invested \$3.1 million in mortgage-backed securities collateralized by residential mortgage loans to low- and moderate-income borrowers. In addition, the current book value of prior period investments, also in the same category, was \$1.2 million. Total qualified equity investments made or held during the evaluation period, therefore, was \$4.3 million.

## Charitable Contributions

The Bank made \$183,290 in qualified grants and donations to organizations that provide education and training, affordable housing, youth programs, and health and human services to low- and moderate-income individuals. Organizations that received donations from the Bank include, for example: Canton Food Pantry, Caritas Communities, Father Bill's Place, Housing Assistance Corporation, My Brother's Keeper, Neighborhood Housing Services, New England Shelter for Homeless Veterans, and Quincy Community Action Program. Table 11 depicts the Bank's grants by community development category and year.

<b>Table 11 – Community Development Donations and Grants</b>								
<b>Community Development Category</b>	<b>2011</b>		<b>2012</b>		<b>2013</b>		<b>YTD 2014</b>	
	#	\$	#	\$	#	\$	#	\$
Affordable Housing	4	5,750	6	5,350	8	4,650	0	0
Community Services	42	47,091	40	40,101	40	64,748	21	15,600
Economic Development	0	0	0	0	0	0	0	0
Total	46	52,841	46	45,451	48	69,398	21	15,600

*Source: Internal bank records*

The Bank of Canton has also funded shortfalls in the Mass Housing "Soft Second" loan program. Typically, the State funds the shortfalls with investments; however, the State was unable to find an appropriate investment that would provide a 7 percent return. Further, the State cut funding to Mass Housing. The Bank of Canton has agreed to fund the shortages. During this period, the Bank funded six shortages totaling \$2,130.

## Community Development Services

A community development service has community development as its primary purpose and is generally related to the provision of financial services or technical services and assistance.

The Bank of Canton provided a significant number of community development services during the evaluation period. Shown in Table 12 is the number community development services provided by the Bank and its staff.

<b>Table 12 – Community Development Services</b>	
<b><i>Community Development Category</i></b>	<b><i>#</i></b>
Affordable Housing	10
Economic Development	2
Community Services	25
Total	37

*Source: Internal bank records*

Officers and employees of the Bank are involved in a myriad of local community development and non-profit organizations in various capacities. Bank personnel provide these organizations with financial and management expertise while serving as directors, officers, loan committee members, and volunteers. The following are a few examples of the commitments made by the Bank's staff:

- The Chairman of the Board serves as co-chairman of the fundraising committee for the New England Shelter for Homeless Veterans.
- An in-house originator serves on the steering committee of the Neighborhood Works of Southern New England Housing Services. She also serves on the Mayor of Quincy's Fair Housing Committee and is a Board member of the Quincy Community Action Program.
- A vice president serves as a Board member for Old Colony Habitat for Humanity.
- Two senior vice presidents are on the Brockton Housing Partnership.
- The President is the Treasurer and President-elect of the South Shore Economic Development Corporation.

The Bank of Canton is actively involved in the communities that comprise its assessment area. The following are notable examples of how the bank and its staff contribute to the community development-related welfare of the area in which the Bank operates:

- The Bank of Canton is a member of the Brockton Housing Partnership, an alliance of financial institutions, community banks, and credit unions working in cooperation to improve economic conditions in the City of Brockton. Recently, the BHP began participating in the Mass Housing Foreclosure Prevention Program. The goal is to assist low- and moderate income homeowners in the early stages of foreclosure as well as prospective homebuyers at risk of obtaining a subprime or predatory loan.
- The Bank of Canton is a member of the Quincy 2000 Collaborative, an innovative private nonprofit community development corporation within the City of Quincy. As a member of the collaborative, the Bank helps fund and administer the Quincy 2000 Loan Pool. The Quincy 2000 Loan Pool combines the resources of the member banks to provide funding for business expansions, equipment purchases, start-up costs, and sign and façade improvements. The loan program fills the gap for small businesses that do not qualify for adequate conventional financing.

- The Bank has sponsored, co-sponsored, and participated in a variety of workshops, educational programs, and seminars as a means of educating the community. For example, the Bank has completed 23 first-time homebuyer and homeownership-related workshops. These workshops have been done independently or in collaboration with organizations such as Neighborhood Housing Services, Quincy Community Action Program, Quincy Asian Resources, and the Brockton Housing Partnership. The Bank has also participated in 15 personal finance educational events geared toward local area high school students. This has included participation in the “Credit for Life” fairs in Brockton and the “How to be a Credit Millionaire” sessions in Randolph. Two Bank employees teach bi-weekly financial education classes. The Bank has conducted other miscellaneous workshops and seminars which have focused on subjects such as identity theft, financial literacy (using FDIC Money Smart modules), predatory lending practices, and business development.
- The Bank of Canton provides free on-site resident banking at several low-income senior housing complexes in the area. A branch representative visits the facilities to discuss financial services and to assist residents with their banking needs.

The Bank participates in the following public and privately sponsored programs that have special features that are of particular benefit to low- and moderate-income consumers:

- The Bank of Canton is a member of SUM<sup>®</sup>, an alliance between many community banks that have agreed not to assess ATM surcharge fees to any of the other member bank’s customers.
- The Bank participates in the Massachusetts Community and Banking Council’s (MCBC) Basic Banking in Massachusetts program. This statewide program is designed to offer low-cost checking and savings accounts to low- and moderate-income individuals.
- The Bank of Canton administers an Interest of Lawyers’ Trust Accounts (IOLTA) program. Interest earned on the applicable accounts is turned over to the Massachusetts IOLTA Program. Proceeds are used to provide low income people with a variety of services, including education and legal services.

## **FAIR LENDING OR OTHER ILLEGAL PRACTICES**

There was no evidence of discriminatory or other illegal credit practices identified at the recent examination of the Bank that were inconsistent with helping to meet community credit needs.

## APPENDIX A DIVISION OF BANKS

### MINORITY APPLICATION FLOW

The Bank's 2012 residential lending was compared with the 2012 aggregate lending performance. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants. Refer to the following table for information on the Bank's minority application flow as well as a comparison of the aggregate lenders throughout the Bank's assessment area.

	Bank 2012		Aggregate Data 2012	Bank 2013		Bank YTD 2014	
<b>RACE</b>	#	%	%	#	%	#	%
American Indian/ Alaska Native	0	0.0	0.1	0	0.0	0	0.0
Asian	404	12.6	6.1	330	14.5	106	11.9
Black/ African American	57	1.8	2.3	56	2.5	24	2.7
Hawaiian/Pac Isl.	3	0.1	0.1	3	0.1	1	0.1
2 or more Minority	0	0.0	0.0	2	0.1	0	0.0
Joint Race (White/Minority)	56	1.7	1.4	40	1.8	16	1.8
<b>Total Minority</b>	<b>520</b>	<b>16.2</b>	<b>10.0</b>	<b>431</b>	<b>19.0</b>	<b>147</b>	<b>16.5</b>
White	2,498	77.9	65.6	1,688	74.6	676	75.6
Race Not Available	188	5.9	24.4	145	6.4	71	7.9
<b>Total</b>	<b>3,206</b>	<b>100</b>	<b>100.0</b>	<b>2,264</b>	<b>100.0</b>	<b>894</b>	<b>100.0</b>
<b>ETHNICITY</b>							
Hispanic or Latino	40	1.2	1.5	23	1.0	14	1.6
Not Hispanic or Latino	2,965	92.5	73.5	2,076	91.7	797	89.1
Joint (Hispanic/Latino/Not Hispanic/Latino)	15	0.5	0.8	18	0.8	10	1.1
Ethnicity Not Available	186	5.8	24.2	147	6.5	73	8.2
<b>Total</b>	<b>3,206</b>	<b>100.0</b>	<b>100.0</b>	<b>2,264</b>	<b>100.0</b>	<b>894</b>	<b>100.0</b>

*Source: U.S. Census, HMDA LAR, HMDA Aggregate Data*

The Bank received 1.2 percent of its residential mortgage loan applications from Hispanic or Latino applicants in 2012, which was comparable to the aggregate level of 1.5 percent. The Bank's level of applications from Hispanic/Latino applicants was 1.0 percent of total in 2013, and increased to 1.6 percent of total in the first six months of 2014. Of total applications in 2012, the Bank received 16.2 percent from minority applicants (by race). This level exceeded aggregate data at 10.0 percent. The minority application levels increased to 19.0 percent of total in 2013, and 16.5 percent through the first six months of 2014. Overall, the Bank's minority application flow is reasonable considering area demographics and comparison against 2012 aggregate data.

## **PERFORMANCE EVALUATION DISCLOSURE GUIDE**

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Division and FDIC, at 490 Turnpike Street, Canton, MA 02021."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.